

NCA
VOC FOR IOP/FN
BACKGROUNDER NO. 5-5768
VERA HIRSCHBERG

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GILDING THE DOLLAR

VOICE:

WORD LAST WEEK THAT THE UNITED STATES PLANS TO SELL SOME OF ITS GOLD RESERVES SENT A SURGE OF OPTIMISM THROUGH THE WORLD ECONOMIC COMMUNITY AND BOLSTERED THE VIEW THAT THE ADMINISTRATION MEANS BUSINESS IN DEFENDING THE DOLLAR. VOA'S VERA HIRSCHBERG HAS THIS BACKGROUND REPORT.

ANNCR:

THE CARTER ADMINISTRATION PLANS TO SELL 300,000 OUNCES OF GOLD A MONTH FOR THE NEXT SIX MONTHS. THE GOLD AUCTIONS ARE PART OF WHAT ADMINISTRATION OFFICIALS SEE AS A LONG-RANGE PLAN TO PROMOTE MONETARY EXCHANGE RATE STABILITY AND WORLD ECONOMIC RECOVERY.

THE GOLD SALES ARE THE LATEST OF A SERIES OF ACTIONS THE ADMINISTRATION HAS UNDERWAY, OR IS PLANNING, TO UNDERScore ITS RESOLVE TO STABILIZE THE DOLLAR. THERE HAS BEEN A NEW EMPHASIS ON CURBING INFLATION. AND LATELY, THE PROSPECTS APPEAR TO BE BRIGHTER FOR PASSAGE OF AN ENERGY BILL THAT WOULD HELP TO CURB OIL IMPORTS AND CORRECT THE LARGE UNITED STATES TRADE DEFICIT.

BY BOLSTERING CONFIDENCE IN THE DOLLAR, THE CARTER ADMINISTRATION HOPES TO EASE PROTECTIONIST PRESSURES ABROAD AND HELP FIGHT INFLATION AT HOME BY HOLDING DOWN IMPORT PRICES. STRENGTHENING THE DOLLAR, IN THE ADMINISTRATION'S VIEW, WOULD ALSO REMOVE A THREAT TO THE WORLD'S MONETARY SYSTEM, WHICH IS HEAVILY BASED ON THE DOLLAR. A STRONGER DOLLAR WOULD ALSO ENCOURAGE THE FLOW OF FOREIGN CAPITAL INTO THE UNITED STATES, WHICH IN TURN WOULD HELP TO REDUCE THE UNITED STATES BALANCE OF

PAYMENTS DEFICIT.

FOR ALL THESE REASONS, THE PSYCHOLOGICAL IMPACT OF THE GOLD SALE IS LARGE, EVEN THOUGH ONLY A SMALL FRACTION OF AMERICAN GOLD RESERVES WILL BE SOLD. THE GOLD SALE ANNOUNCEMENT WAS FOLLOWED BY AN INCREASE IN THE DOLLAR'S VALUE ON INTERNATIONAL MONEY MARKETS AND A DECLINE IN THE PRICE OF GOLD. THIS HAS FUELED SPECULATION THAT THE DOLLAR'S DECLINE MAY HAVE BOTTOMED OUT.

IT WAS NOT TOO LONG AGO THAT EUROPEAN OFFICIALS WERE ACCUSING THE UNITED STATES OF A POLICY OF BENIGN NEGLIGENCE IN DEFENSE OF A STRONG DOLLAR. THEY ARGUED THAT WASHINGTON WAS DELIBERATELY LETTING THE DOLLAR SLIDE AGAINST SOME MAJOR CURRENCIES TO MAKE AMERICAN GOODS MORE COMPETITIVE ABROAD AND FOREIGN GOODS MORE EXPANSIVE IN THE UNITED STATES. CARTER ADMINISTRATION OFFICIALS DENIED THIS AND MOVED TO A POLICY OF ACTIVE INTERVENTION TO SUPPORT THE DOLLAR. THEIR MOST RECENT MOVES ARE BEING SEEN AS PROOF THAT WASHINGTON IS DETERMINED TO STRENGTHEN THE DOLLAR WITH POLICIES THAT MIRROR NOT BENIGN NEGLIGENCE, BUT ACTIVE CONCERN.

JS/PY